

**Memorandum to the File
Case Closure**

**Alleged Misuse of Government Resources
VA Pacific Island Healthcare System, Honolulu, Hawaii
(2011-02610-IQ-0111)**

The VA Office of Inspector General Administrative Investigations Division investigated an allegation that (b) (7)(C)

misused Government resources by spending \$300,000 a year on a 10-year office space lease for Pacific Health Research and Education Institute (PHREI), a VA affiliated non-profit research corporation, while the healthcare system had a \$5 million deficit. We also investigated whether non-VA research projects were improperly included in the medical center's Veterans Equitable Resources Allocation (VERA) calculations, which resulted in a "padding" of the medical center's budget. To assess these allegations, we reviewed email and personnel records, an audit that the VA Nonprofit Program Office (NPPO) conducted of PHREI, and applicable Federal laws, regulations, and VA policies.

VHA policy states that NPPO is the liaison between VHA and Nonprofit Research and Education Corporations (NPCs). Further, NPPO is responsible for coordinating policy regarding NPCs and provides oversight, guidance, and education to ensure compliance with applicable regulations and VA policies affecting the operation and financial management of NPCs. It states that NPPO institutes measure to ensure that any deficiencies in the operation and management of an NPC are corrected in an appropriate and timely manner. VHA Handbook 1200.17, Paragraph 4(2). VHA policy also states that an NPC may receive any incidental benefits that result from VA employees using VA resources to carry out their official duties to promote VA research and education missions and that a medical center may also provide the NPC with space for its activities and with services, such as maintenance, repair, and utilities, without reimbursement. Id., at Paragraph 11(4). VHA policy further states that VA research is defined as approved by the Research and Development Committee (RDC) and conducted by VA Investigators including PIs, Co-PIs, and Site Investigators on VA time (serving on compensated, WOC, or IPA appointments), utilizing VA resources (e.g., equipment), or on VA property including space leased to, and used by VA. The research may be funded by VA, by other sponsors, or be unfunded. VHA Handbook 1200.05, Paragraph 3.

During the course of our investigation we learned that in October 2010, NPPO performed a limited review of PHREI's finances, internal controls, and operations, precipitated by an anonymous complaint that largely duplicated the allegations OIG received. NPPO audit records reflected that auditors primarily focused on the reported allegations and that between October 26 and October 29, 2010, they conducted "intensive" interviews with key researchers, IRB board members, RDC members, PHREI board members, PHREI employees, (b) (7)(C) (b) (7)(C) and (b) (7)(C)

NPPO audit records reflected that available funds from the National Institutes of Health (NIH) for a local Honolulu research organization, Pacific Health Research Institute (PHRI), recognized as one of Hawaii's "premier" research organizations, were reduced over the past several years. Records also reflected that without a "significant endowment," PHRI did not have funds to recruit new investigators and sought to transfer their projects, due to their financial difficulties. Further, records reflected that several of PHRI's projects were transferred to PHREI, after "fully documented" discussions began between PHRI and PHREI in June 2009. NPPO records reflected that prior to PHREI taking on PHRI projects, PHRI Chief Executive Officer provided historical and financial information to PHREI's Board of Directors, PHREI included legal counsel in the discussions, and PHREI considered ramifications involved in transferring research projects.

NPPO audit records reflected that as part of the transfer, PHREI hired "only a small core group" of prior PHRI employees to support PHREI investigators, because they had experience with administration of NIH grants and contracts and could provide continuity in grant and contract management. Records further stated that "no PHRI liabilities were assumed by the VA nonprofit... The projects and personnel transferred to the VA nonprofit, as well as the large amount of cash, are of considerable value to PHREI." Records stated that "during an extensive review of the board meeting minutes the NPPO noted the mission of the Department of Veterans Affairs was the first consideration and the overall mission of research projects at PHREI is veteran centric."

NPPO records reflected that all projects transferred from PHRI to PHREI were approved by both the Medical Center's Institutional Review Board (IRB) and RDC and that IRB and RDC were "in truth independent and cannot be swayed by any particular individual, regardless of that person's position, rank, or popularity." Addressing PHREI office location concerns, records reflected that PHREI employees were unable to be located at the medical center, due to "severe space limitations," and that employees would be relocated to new offsite offices close to the Honolulu Medical Center in December 2010.

In reference to a conflict of interest allegation in that VA employees at PHREI who had financial ties to PHRI were involved in discussions regarding the transfer, NPPO audit records reflected that they were "confident" that (b) (7)(C) who made the "ultimate decision" on the transfer, had "no conflict of interest, consulted many parties with knowledge of PHRI and the VA nonprofit, caused due deliberation of the transfer decision, and ultimately put it to a vote by the VA nonprofit's board." Records further stated that the PHREI Board of Directors with a conflict of interest recused themselves from voting on PHRI transfer matters. Records reflected that "there is not a conflict of interest due to the documentation noted in the minutes."

NPPO records addressed additional unsubstantiated allegations which were unrelated to our investigation and we will not discuss them further. Records also reflected that NPPO developed 40 recommendations for PHREI involving their accounting system, which were unrelated to the original complaint. They asked PHREI to provide a written response to address the recommendations, including they action plan for implementing.

Conclusion

We did not substantiate that [REDACTED] misused Government resources by spending VA money on office space for PHREI, as VHA policy permits a medical center to provide the NPC with space for its activities. Additionally, we did not substantiate that non-VA research projects were improperly included in the medical center's VERA calculations, which resulted in a "padding" of their budget. All projects transferred from PHRI to PHREI were VA research, approved by both IRB and RDC, and conducted on VA property. This case is being closed without issuing a formal report or memorandum.

Prepared By: [REDACTED]

3/1/12
Date

Approved By: [REDACTED]

3/1/12
Date